

A black line graph is plotted on a grid background. The line starts at a low point, rises to a peak, falls to a trough, rises to a higher peak, falls to a lower trough, rises to a higher peak, falls to a lower trough, and finally rises to a high point. The grid is composed of small squares, with the bottom half being darker than the top half.

Economic Indicators

Prepared by the Department of Finance • April 2016

*The purpose of this report is to keep policy makers apprised of changes in
the national and local economies that
the Montgomery County Department of Finance
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet
on the Montgomery County Web Page:
<http://www.montgomerycountymd.gov/finance/economic.html>*

For questions regarding this report, please contact:

*David Platt
Chief Economist
Montgomery County Department of Finance
101 Monroe Street, 15th Floor
Rockville, Maryland 20850*

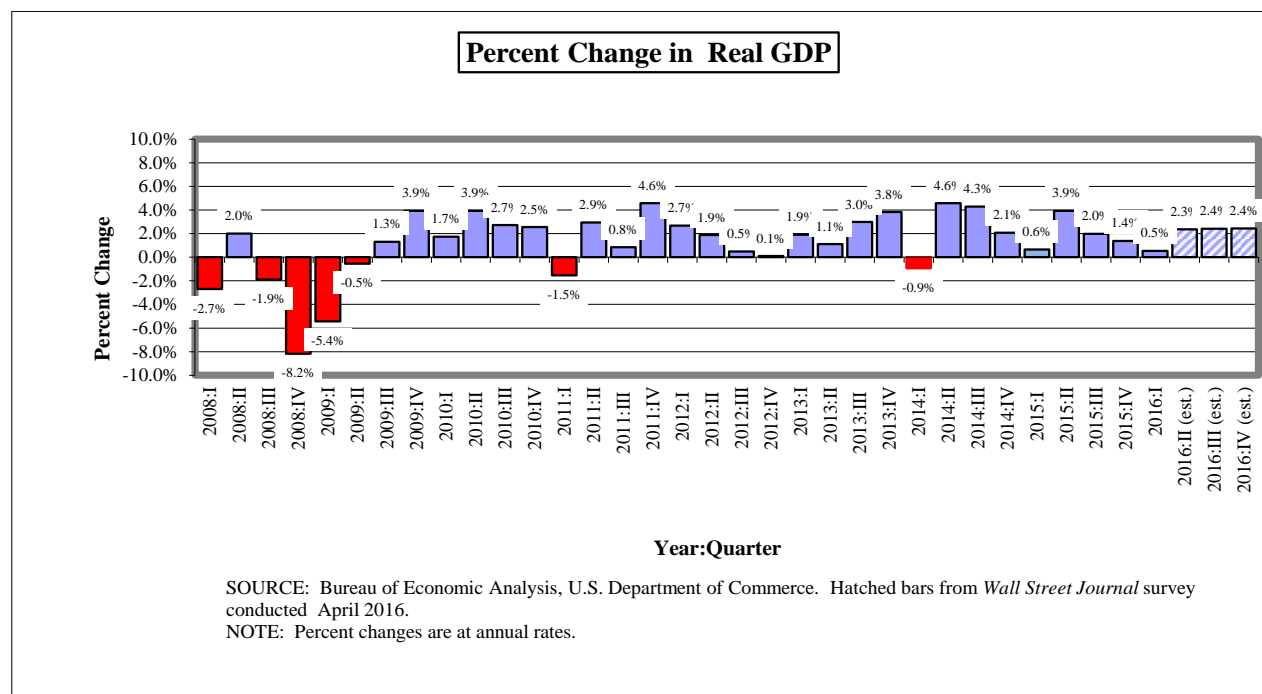
*Phone: (240) 777-8866
Email: David.Platt@montgomerycountymd.gov*

INTRODUCTION

This quarterly report provides an analysis of national, regional, and Montgomery County economic indicators for 2015 and the first quarter of 2016. Quarterly data presented in this report are not seasonally adjusted except for the national gross domestic product.

NATIONAL ECONOMY

According to the advance estimate by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, real gross domestic product (GDP) increased at a 0.5 percent seasonally adjusted annual rate during the first quarter of 2016. That increase followed an increase of 1.4 percent during the fourth quarter of 2015. However, the first quarter increase was below the expected increase of 1.3 percent based on April's *The Wall Street Journal* (WSJ) survey of fifty economists. Data released by BEA for the first quarter "primarily reflected positive contributions from personal consumption ($\uparrow 1.9\%$), residential fixed investment ($\uparrow 14.8\%$), and state and local government spending ($\uparrow 2.9\%$) that were offset by contributions from exports ($\downarrow 2.6\%$), non-residential fixed investment ($\downarrow 5.9\%$), private inventory investment ($\downarrow \$17.5$ billion), and federal government spending ($\downarrow 1.6\%$)." Real final sales of domestic product (real GDP less the change in private inventories) increased 1.7 percent in the first quarter compared to an increase of 2.5 percent during the fourth quarter. Based on the April WSJ survey, the average of responses expects economic growth to increase 2.3 percent during the second quarter of 2016, and 2.4 percent during the remaining two quarters in 2016.



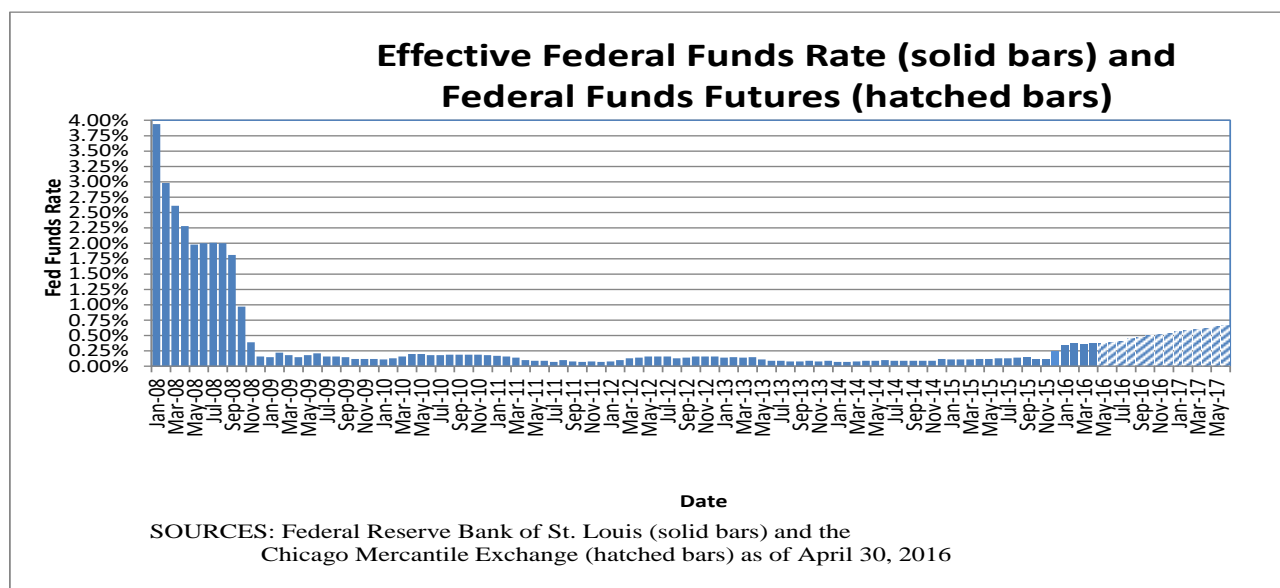
According to WSJ, “a sharp pullback in business investment and weak global demand dragged down an already-lackluster U.S. economy... consumers and housing kept the U.S. from sliding backward.” With a growth rate of 1.9 percent in personal consumption which followed increases of 3.6 percent, 3.0 percent, and 2.4 percent the previous three quarters, consumers appeared to exhibit signs of caution especially with a decline of 1.6 percent in nondurable goods. The first quarter result appears to experience the same weak performance during previous first quarters and persistent sluggish first quarter growth rates. WSJ reports that the U.S. economy contracted in the opening quarter of 2014 (↓0.9%) and barely increased during the first quarter of 2015 (↑0.6%) but grew 2.4 percent towards the end of 2014 and 2015.

Subsequent to the April 26-27 meeting of the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System but a day prior to BEA’s release of the advance GDP, the Committee stated that “labor market conditions have improved further even as growth in economic activity appears to have slowed. Growth in household spending has moderated, although households’ real income has risen at a solid rate and consumer sentiment remains high. Since the beginning of the year, the housing sector has improved further but business fixed investment and net exports have been soft.” FOMC states further that “inflation is expected to remain low in the near term but to rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens.”

Following its March 2016 meeting, the FOMC released its latest economic projections from 2016 to 2018 (the next scheduled release of its economic projections is in June). Real GDP is expected to increase between 2.1 and 2.3 percent in 2016, between 2.0 and 2.3 percent in 2017, and between 1.8 and 2.1 percent in 2018. The April survey of economists by *The Wall Street Journal* estimates that real GDP will increase 2.1 percent in 2016, 2.3 percent in 2017, and 2.2 percent in 2018.

Both the April WSJ survey of economists and the economic projections by the FOMC in March suggest that unemployment will gradually decrease to 4.7 percent by the end of 2016. Inflation as measured by the Personal Consumption Expenditure (PCE) index will increase between 1.4 and 1.7 percent in 2016 and between 1.7 and 2.0 percent by 2017, and between 1.9 and 2.0 percent in 2018. The survey of economists by the WSJ forecasts that inflation, as measured by the consumer price index (CPI), will increase 1.8 percent by December 2016, 2.2 percent by December 2017, and 2.3 percent by December 2018.

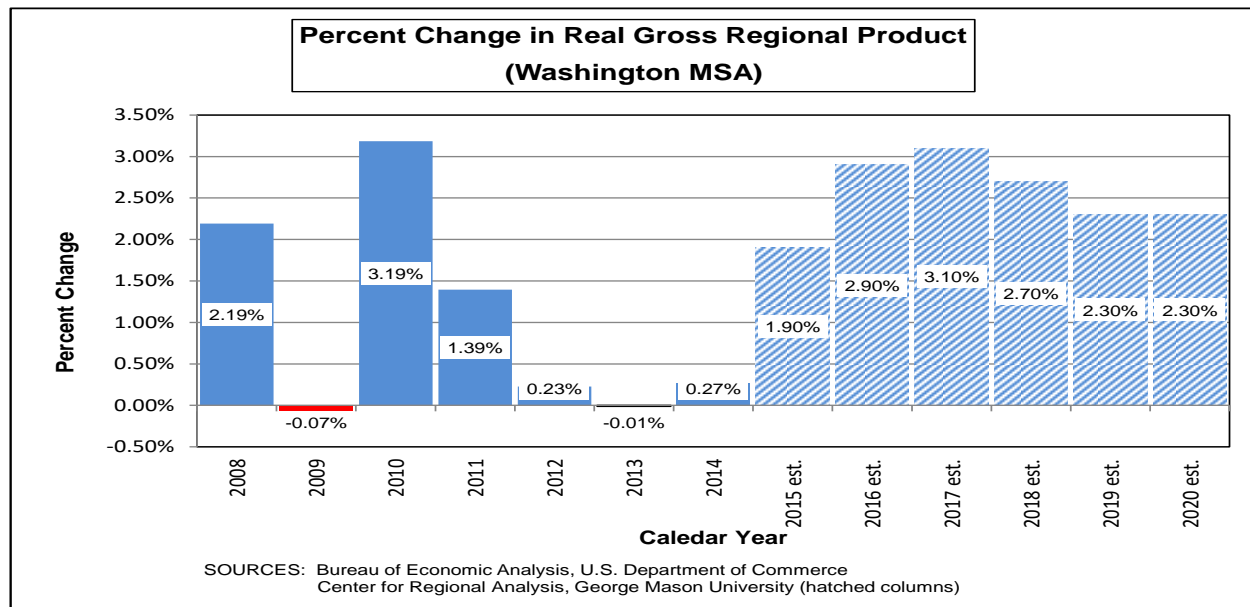
Following the meeting of the FOMC on April 26-27 and the release of the first quarter GDP by BEA, the futures market for the 30-day federal funds rate remains at or below the 0.50 percent level through October 2016. Based on the implied probabilities of a rate increase in the effective federal funds rate, the Chicago Mercantile Exchange (CME Group) suggests a 60.0 percent probability of a rate hike by the FOMC in December of this year. The April WSJ survey of 50 economists estimate, on average, that the effective federal funds rate could reach 0.84 percent by December, an increase of nearly fifty basis points from April’s rate of 0.37 percent.



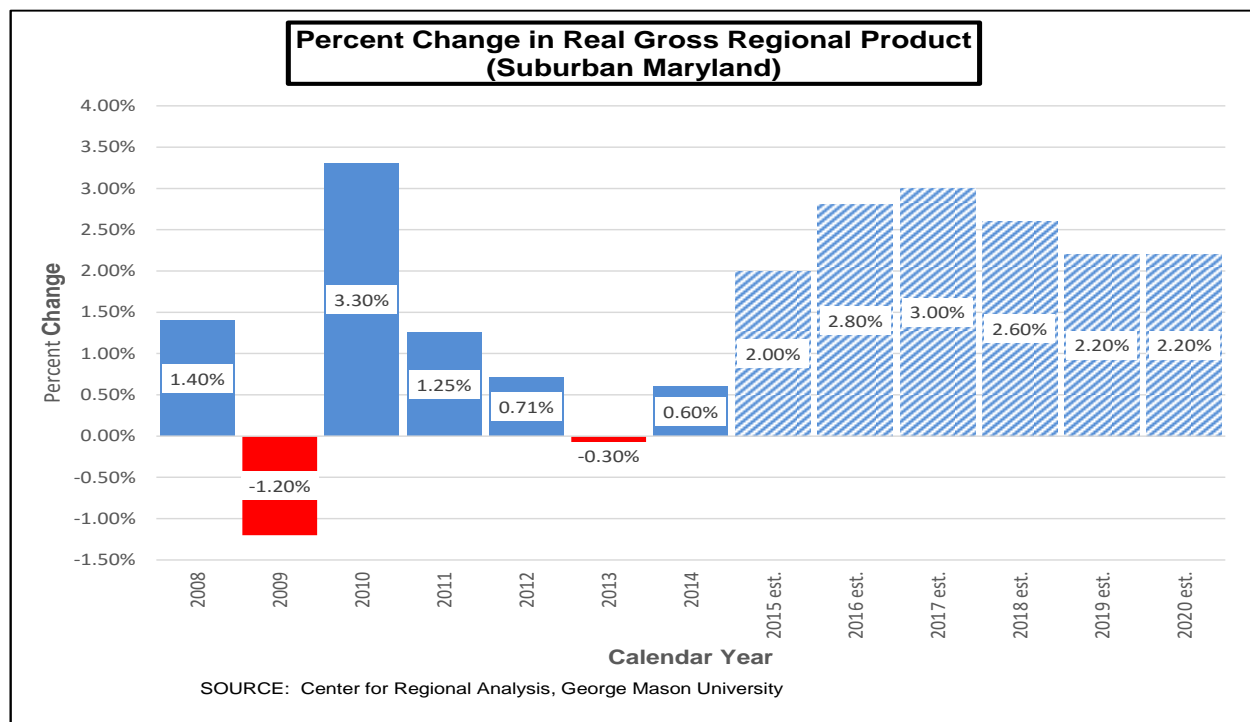
Following a strong performance in 2014, three of the four indices declined in 2015: Dow Jones Industrial Average index (DJIA) - ↓2.23%; Standard and Poor's 500 Index (S&P 500) - ↓0.73%; and the Russell 2000 index - ↓5.71%, while the NASDAQ index increased 5.73 percent. The stock market experienced a mixed performance during the first quarter of this year. The DJIA increased 1.49 percent and the S&P 500 Index increased 0.77 percent. However, the NASDAQ declined 2.75 percent and the Russell 2000 also declined during the first quarter by 1.92 percent.

REGIONAL ECONOMY

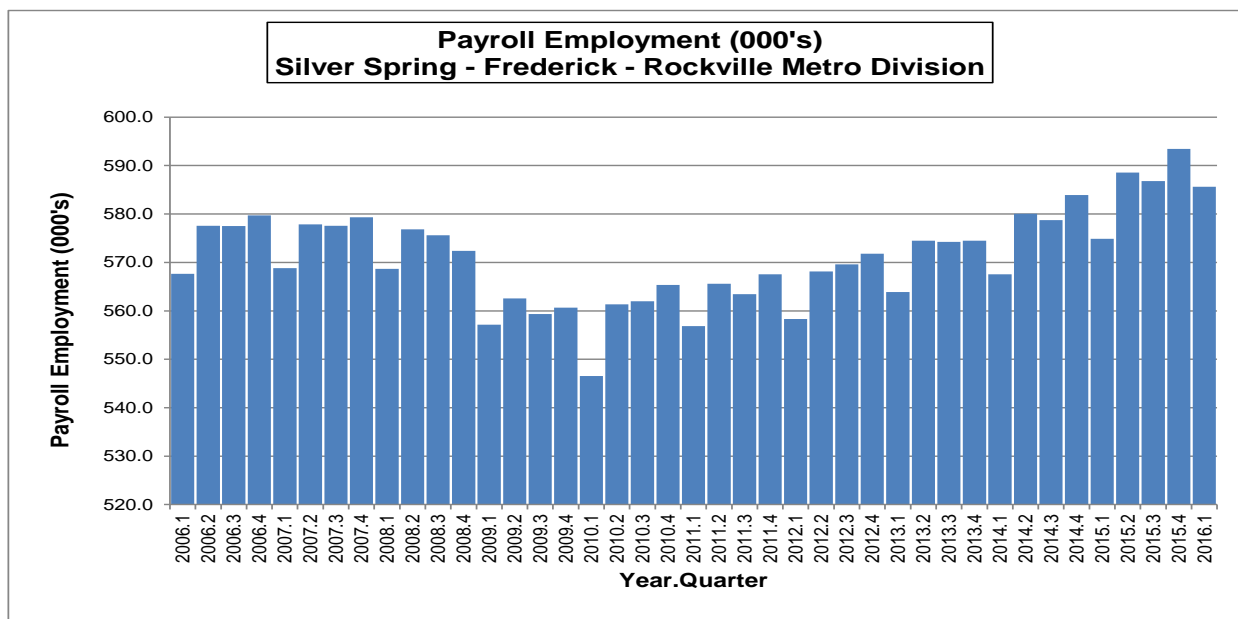
According to BEA, the region's economy contracted in 2013 (↓0.01) and increased a weak 0.27 percent in 2014 the latest date for which data are available. The sector that contributed to the increase in 2014 was private-services providing industries (↑0.52%). The Center for Regional Analysis (CRA), George Mason University, estimates that the gross regional product (GRP) increased 1.90 percent in 2015 and estimates that GRP will increase to 2.90 percent this year, increase to 3.1 percent in 2017, then decelerate to 2.70 percent in 2018.



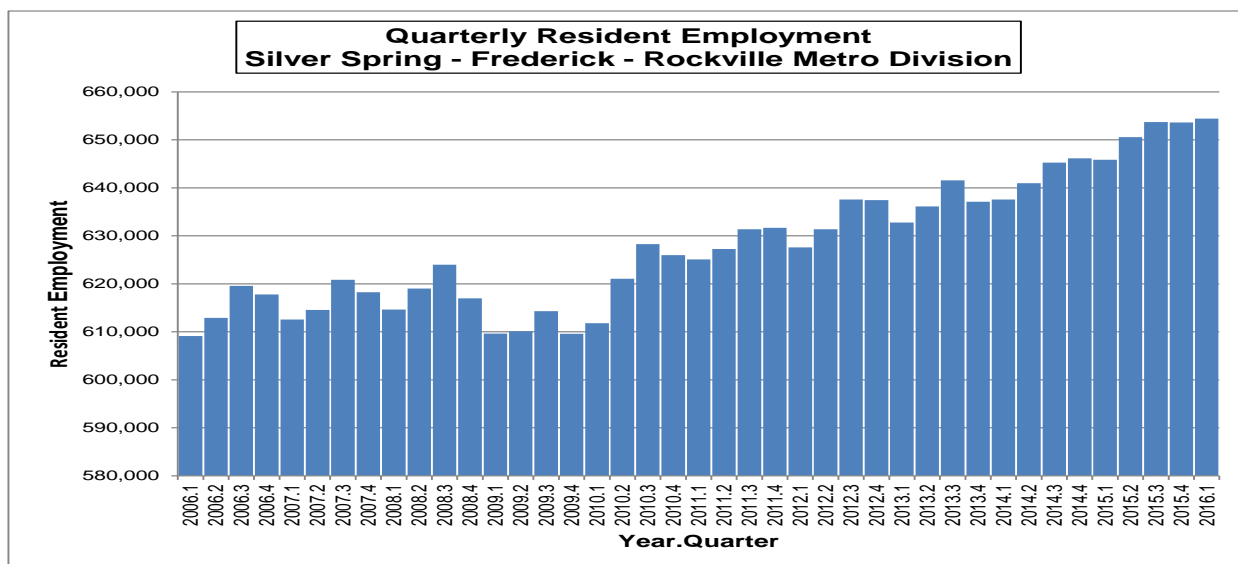
CRA also estimates that the gross regional product for the Maryland suburban area of the Washington MSA will increase from 0.60 percent in 2014 to 3.00 percent by 2017 then decelerate to 2.60 percent in 2018. According to CRA's forecast the suburban Maryland's economy is expected to grow at a slower rate than the entire Washington metropolitan area.



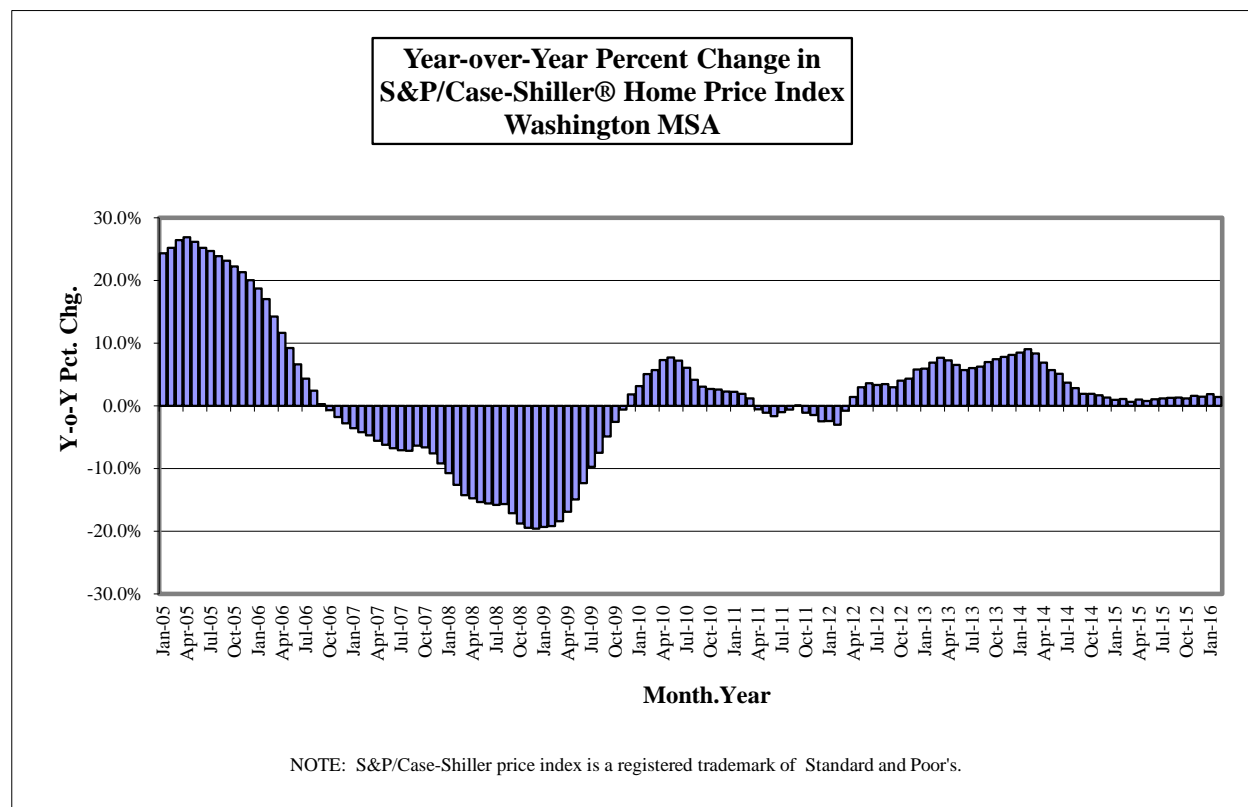
Revised payroll employment from the Bureau of Labor Statistics, U.S. Department of Labor, for the Silver Spring-Frederick-Rockville (SSFR) metropolitan division was 585,900 in 2015 and 1.45 percent above 2014. For the first quarter of 2016, payroll employment was 585,600 – an increase of 1.86 percent above the first quarter of 2015 figure of 574,900. Please note that the quarterly data are not seasonally adjusted and data for the first quarter of a calendar year are typically below total annual employment.



Employment for the Silver Spring-Frederick-Rockville residents, as measured by the survey of households, or resident employment, was 650,939 in 2015 – an increase of 1.32 percent from 642,480 in 2014. During the first quarter of 2016, employment as measured by that survey increased 1.33 percent from 645,834 during the first quarter in 2015 to 654,431.

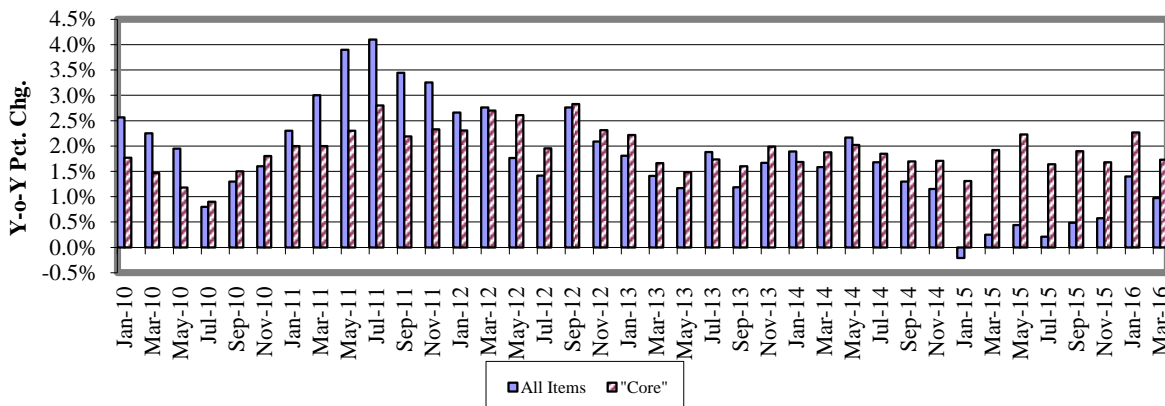


The resale housing market across the region experienced modest growth between February 2015 and February 2016. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices from February 2015 to February 2016 increased 1.4 percent and have increased 25.7 percent since the recent low point of the index in March 2009.



As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 0.97 percent on a year-over-year basis in March 2016 over March 2015 which was attributed to low energy prices. However, consumer prices excluding food and energy purchases were up 1.73 percent in the region (on the same year-over-year basis) during that same period. On an annual basis, the CPI-U increased only 0.36 percent in 2015 and well below the rate in 2014 (1.54 percent).

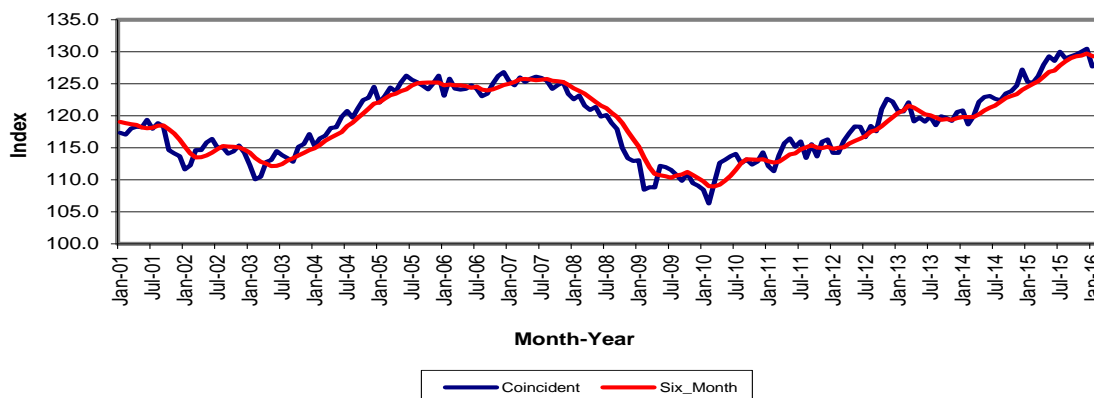
Year-over-Year Percent Change in Consumer Price Index Washington-Baltimore CMSA



SOURCE: Bureau of Labor Statistics, U.S. Department. of Labor

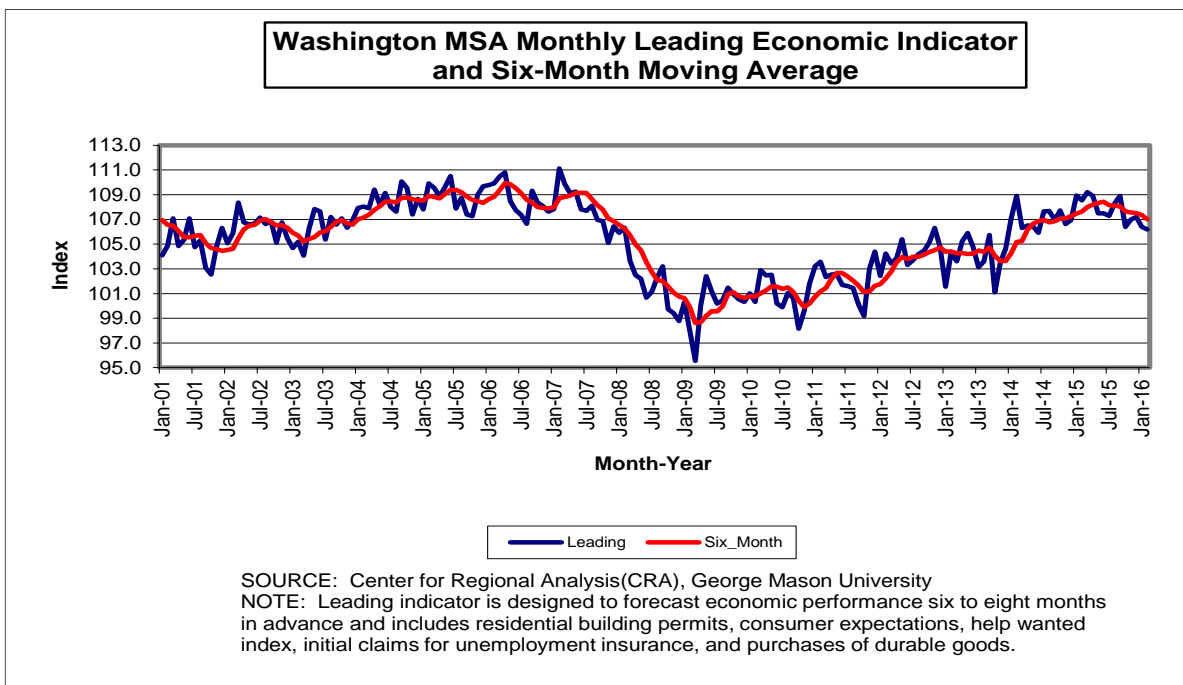
According to CRA, the monthly coincident economic indicator for the Washington metropolitan region increased 0.5 percent from January to February – the latest date for which data are available. However, on a six-month moving average basis, a method to smooth the month-to-month volatility that provides a better indicator of change, the index decreased 0.1 percent over the same period last year. The coincident index measures the current performance of the region's economy and is based on a six-month moving average. Even with that decrease, the region's economy has increased 3.4 percent over the past twelve months ending in February.

Washington MSA Monthly Coincident Economic Indicator and Six-Month Moving Average



SOURCE: Center for Regional Analysis(CRA), George Mason University
NOTE: Coincident indicator represents the current state of the economy and includes total wage and salary employment, consumer confidence, domestic airport passengers, and purchases of nondurable goods.

CRA also reported that the leading economic indicator decreased 0.2 percent from January to February. Smoothing the month-to-month volatility with a six-month moving average, the index decreased 0.3 percent from January to February. The leading index measures the economic performance of the region three to six months ahead. Using the six-month moving average, the leading indicator decreased 0.6 percent over the twelve-month period ending in February. Based on the recent twelve-month trend in the leading index, it suggests that the region's economy will experience slow growth over the next three to six months but is expected to accelerate during the second half of this year based on CRA's estimate of GRP for 2016.

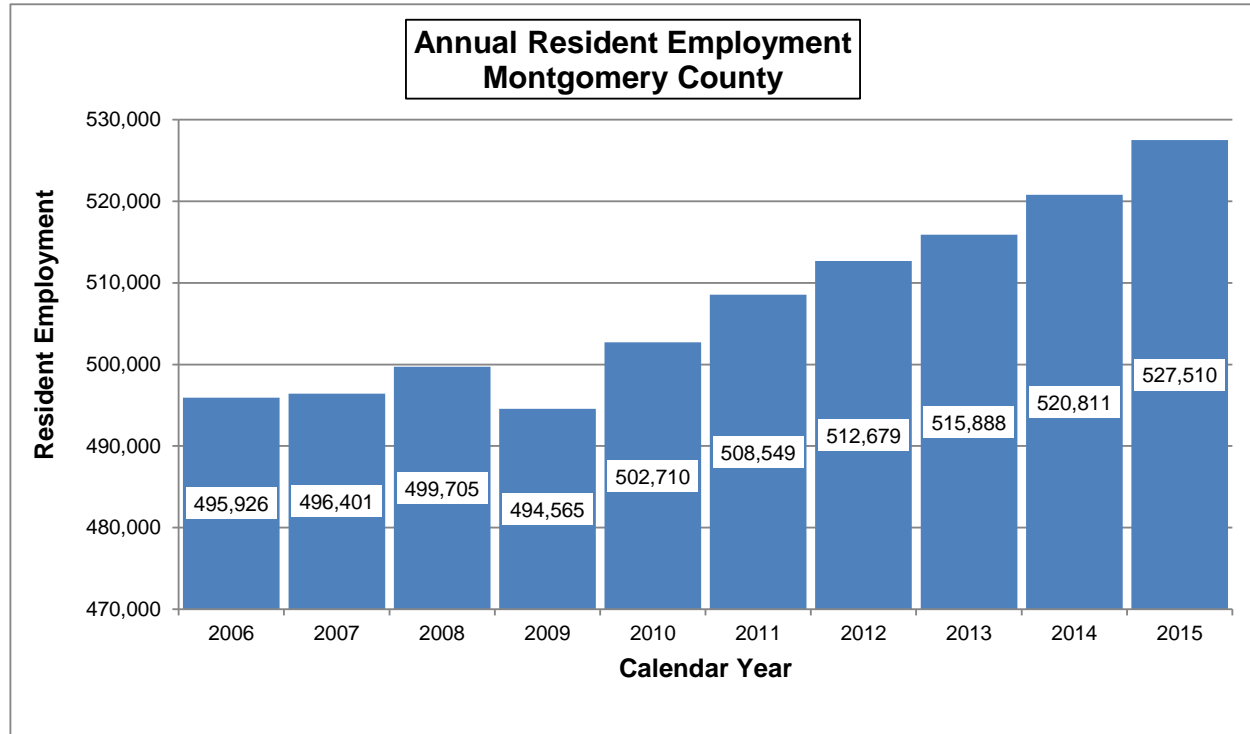


MONTGOMERY COUNTY ECONOMIC INDICATORS

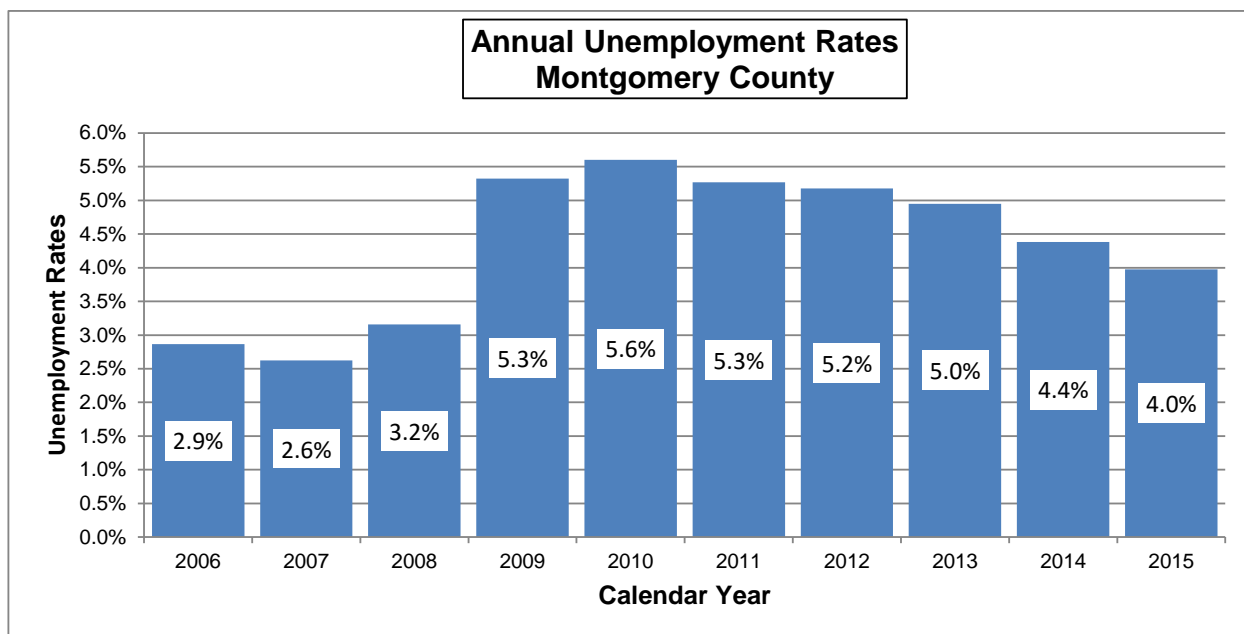
Montgomery County's economy experienced mixed economic performance during the first quarter of 2016. The reasons for the mixed performance include such positive indicators as an increase in residential employment and sales of existing homes, and a decline in the unemployment rate. However, a decline in the average price for existing homes and in the construction of new residential units partially offset the positive indicators for employment and home sales.

Employment Situation

Based on revised data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, resident employment (labor force series and not seasonally adjusted) in 2015 increased by nearly 6,700 from 2014 (↑1.29%). During the first quarter of 2016, resident employment increased by nearly 6,800 or 1.30 percent over the first quarter of 2015.



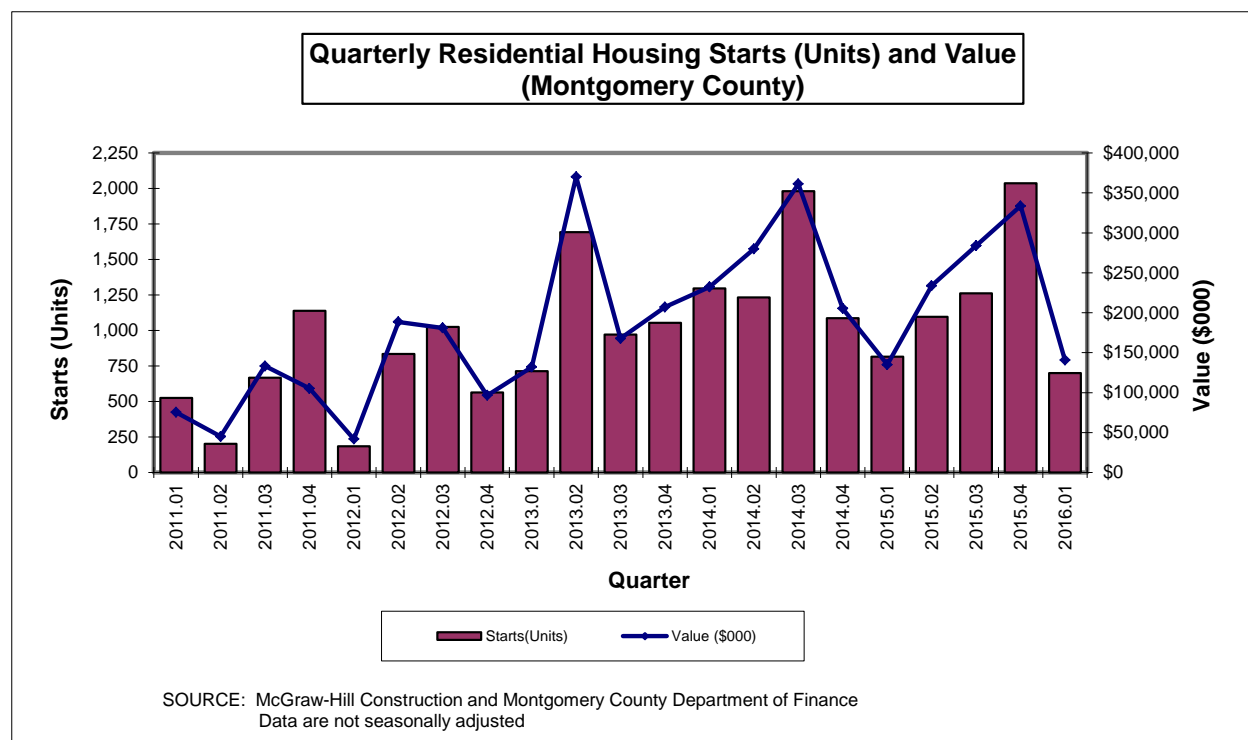
The County's unemployment rate declined to 4.0 percent in 2015 compared to 4.4 percent in 2014 and is the lowest level in seven years. The decline in the unemployment rate is attributed to a larger percentage increase in resident employment ($\uparrow 1.29\%$) than the percentage increase the labor force ($\uparrow 0.84\%$). The unemployment rate declined from 4.1 percent during the first quarter of 2015 to 3.6 percent in the first quarter of this year.



Construction Activity

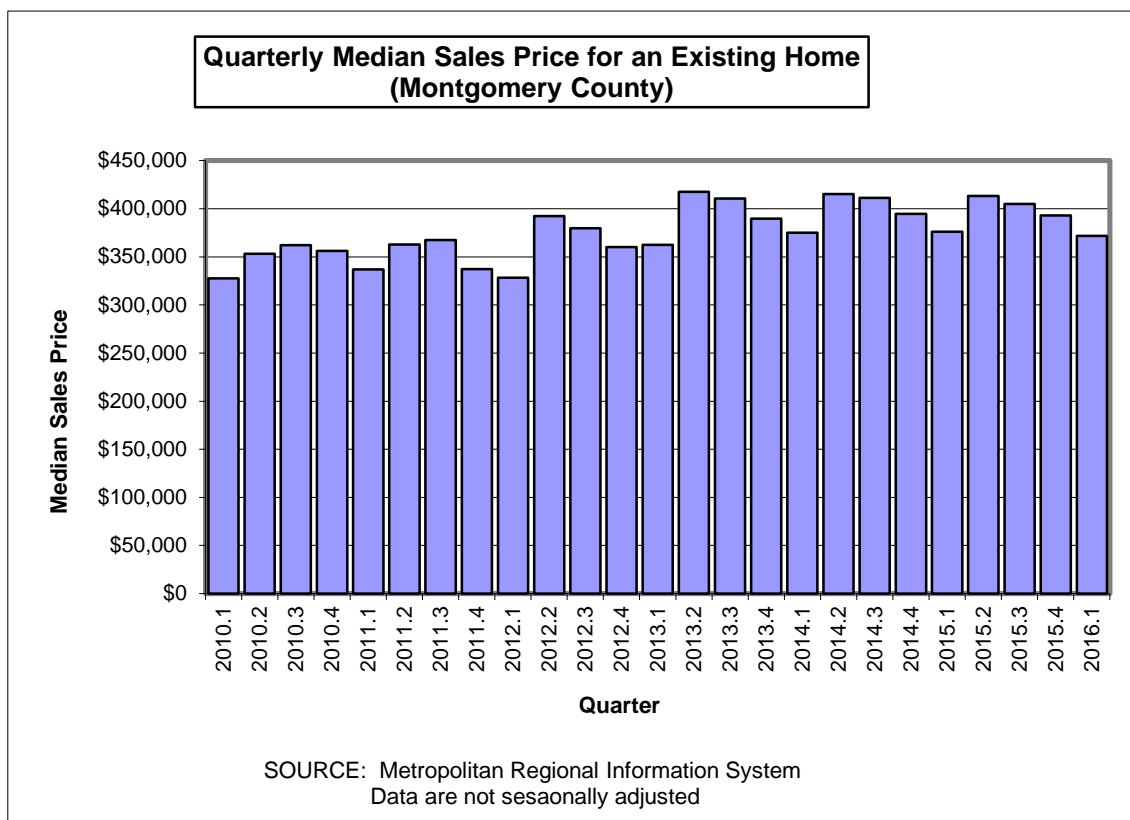
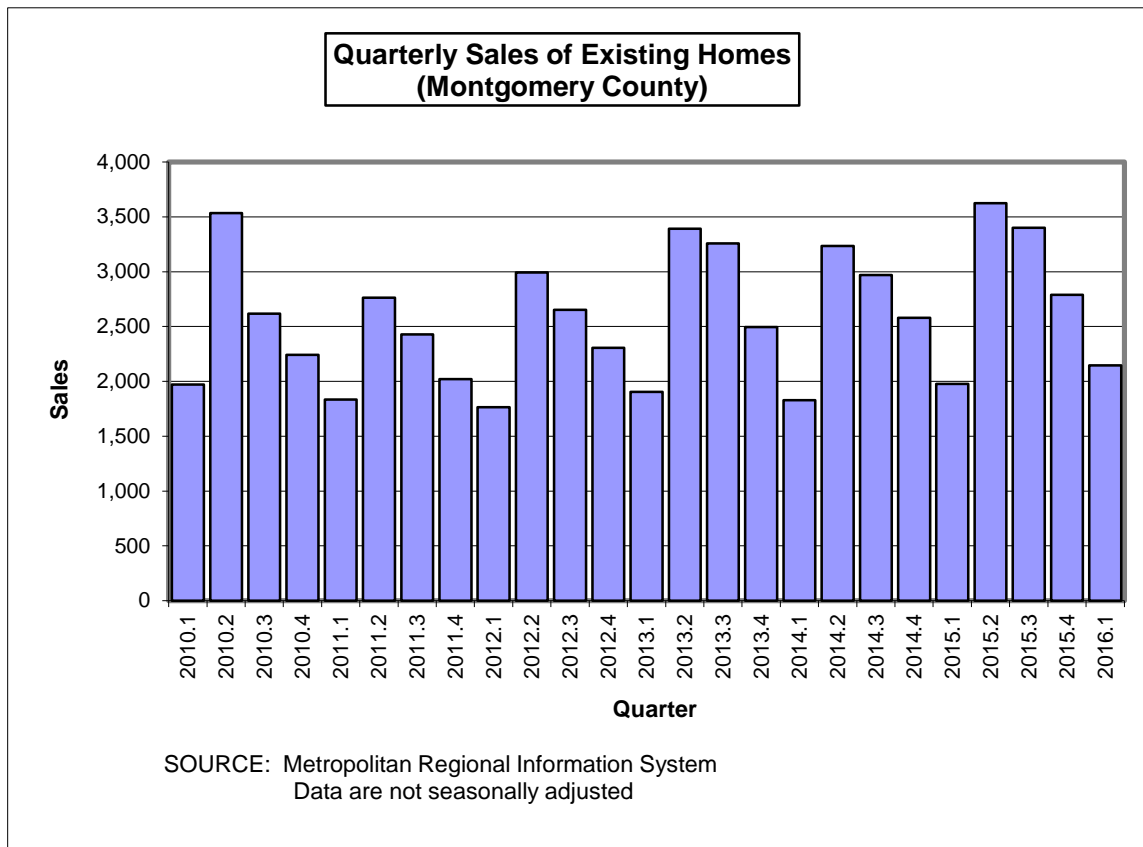
After experiencing a decrease of 6.3 percent in the construction of new residential units in 2015, construction of new units continued to decline during the first quarter of 2016 compared to the same period in 2015 (↓14.1%). The number of new residential units constructed during the first quarter (700) was the lowest quarterly number since the fourth quarter of 2012. The decrease was attributed to the decline in the construction of multi-family units (↓32.2%) during the first quarter compared to the first quarter of 2015. Total value added decreased in 2015 (↓11.6%) but increased 4.2 percent in the first quarter compared to the same period in 2015.

While the number of non-residential construction projects decreased in 2015 (↓13.2%), the number of new projects increased during the first quarter (↑20.0%) but the value added decreased 26.1 percent.



Residential Real Estate

During the first quarter of 2016, existing home sales increased 8.5 percent from the same period in 2015. While average sales prices for existing homes increased a meager 0.9 percent during the first quarter compared to the first quarter of 2015, the median sales price decreased 1.1 percent. On a calendar year basis, home sales increased 11.1 percent, average sales prices decreased 0.5 percent, and median sales prices were unchanged.



Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales, including assessment collections, decreased 1.4 percent during the first quarter of 2016 compared to the same period in 2015. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 3.9 percent during this period while sales of durable goods were up 2.4 percent. The decrease in nondurable goods purchases was attributed to the decreases in utilities and transportation (↓16.6%), in food and beverage items (↓2.6%), and general merchandise (↓3.7%), while the increase in purchases of durable goods was attributed to an increase in building and industrial supplies (↑17.7%), hardware, machinery, and equipment (↑4.7%) and automobile sales and products (↑2.1%). Purchases of furniture and appliances decreased 16.2 percent. Given the increase in home sales of 11.1 percent during the first quarter, the decrease in furniture and appliances is unusual because of the positive association between home sales and sales of furniture and appliances.

CONCLUSION

The major economic indicators confirm that the County's economy experienced mixed performance during the first quarter of 2016. The reasons for a mixed performance include an increase in resident employment, a decline in the unemployment rate, and an increase in home sales. Those positive indicators were partially offset by the decline in the average price for an existing home, and a decline in the construction of new residential units.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2015
				2016	2015	
Leading Indicators						
National	Mar. '16	0.2%		n.m.	n.m.	n.m.
Maryland	Mar. '16	2.5%		2.4%	1.7%	2.0%
Washington MSA	Feb. '16	-0.2%		-2.2%	0.7%	0.8%
Coincident Indicators						
National	Mar. '16	0.1%		n.m.	n.m.	n.m.
Maryland	Mar. '16	0.4%		4.2%	3.6%	3.8%
Washington MSA	Feb. '16	0.5%		2.2%	4.6%	4.5%
Consumer Confidence Index						
National	Apr. '16	-2.0%		-4.1%	23.2%	12.7%
South Atlantic Region	Apr. '16	9.9%		-0.4%	22.6%	13.5%
Consumer Sentiment (University of Michigan)	Apr. '16	-2.2%		-4.9%	17.0%	10.5%
Consumer Price Index						
All Items (nsa)						
National	Mar. '16	0.9%		1.1%	-0.1%	0.1%
Washington - Baltimore CMSA	Mar. '16	1.0%		1.1%	0.0%	0.3%
Core CPI (nsa)						
National	Mar. '16	2.2%		2.2%	1.7%	1.8%
Washington - Baltimore CMSA	Mar. '16	1.7%		1.9%	1.6%	1.8%
Retail Trade						
National (sales - nsa)	Mar. '16	3.6%		3.8%	2.4%	2.1%
Maryland (sales tax)(1)	Mar. '16	2.5%		2.7%	6.1%	4.1%
Montgomery County (sales tax)(1)	Mar. '16	-3.1%		-1.4%	6.5%	3.4%
Employment						
Maryland (labor force data - nsa)	Mar. '16	3,012,672	2,962,099	2,999,255	2,948,626	2,988,101
- Percent Change		1.7%		1.7%		1.4%
Silver Spring-Frederick-Rockville (labor force data)	Mar. '16	656,153	645,715	654,431	645,834	648,623
- Percent Change		1.6%		1.3%		1.7%
Montgomery County (labor force data)	Mar. '16	531,604	523,166	530,375	523,591	525,219
- Percent Change		1.6%		1.3%		1.7%
Montgomery County (QCEW)(2)	Sep. '15	461,061	458,377	n.a.	n.a.	n.a.
- Percent Change		0.6%				
Unemployment						
Maryland (nsa)	Mar. '16	4.8%	5.4%	4.8%	5.6%	5.2%
Silver Spring-Frederick-Rockville (labor force data)	Mar. '16	3.7%	4.1%	3.7%	4.3%	4.1%
Montgomery County (nsa)	Mar. '16	3.5%	4.0%	3.6%	4.1%	4.0%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	Mar. '16	\$150,213	\$91,159	\$279,961	\$323,642	\$1,574,258
- Percent Change		64.8%		-13.5%		9.2%
Residential (\$ thousands)	Mar. '16	\$85,114	\$91,159	\$140,667	\$135,046	\$855,884
- Percent Change		-6.6%		4.2%		-11.6%
Non-Residential (\$ thousands)	Mar. '16	\$65,099	\$0	\$139,294	\$188,596	\$718,374
- Percent Change		n.m.		-26.1%		51.9%
Building Permits (Residential)						
Maryland	Mar. '16	1,359	1,035	3,650	3,167	16,149
- Percent Change		31.3%		15.3%		-6.9%
Montgomery County (units)	Mar. '16	n.a.	n.a.	n.a.	n.a.	2,025
- Percent Change						-47.0%
Building Permits (Non-Residential)						
Montgomery County	Apr. '16	180	201	658	568	2,019
- Percent Change		-10.4%		15.8%		7.1%
Construction Cost Index						
Baltimore	Apr. '16	7,314.32	6,928.92	7,101.53	7,000.09	6,943.79
		5.6%		1.4%		0.0%
Real Estate						
Case-Shiller Home Price Index*(nsa)						
	Feb. '16	208.65	205.70	208.86	205.48	209.98
		1.4%		1.6%		1.1%
Maryland						
Sales	Mar. '16	5,772	5,417	14,957	13,218	73,044
- Percent Change		6.6%		13.2%		16.3%
Median Price	Mar. '16	\$252,068	\$246,361	\$244,088	\$237,423	\$261,002
- Percent Change		2.3%		2.8%		0.0%
Montgomery County						
Sales	Mar. '16	841	836	2,145	1,977	12,191
- Percent Change		0.6%		8.5%		11.1%
Average Price	Mar. '16	\$473,902	\$499,348	\$473,369	\$469,270	\$501,305
- Percent Change		-5.1%		0.9%		-0.5%
Median Price	Mar. '16	\$385,000	\$397,450	\$371,667	\$375,983	\$400,000
- Percent Change		-3.1%		-1.1%		0.0%
Average Days on the Market	Mar. '16	74	75	77	75	57

NOTES:

(n.m.): not meaningful

(nsa): not seasonally adjusted

(n.a.): not available

(1): Data include miscellaneous and assessment collections.

(QCEW): Quarterly Census of Employment and Wages

(2) SOURCE: Bureau of Labor Statistics, U.S. Department of Labor